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RUEHME/AMEMBASSY MEXICO 3581
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
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SUBJECT: PERU LOWERS TARIFFS AGAIN, UNILATERALLY

¶1. Summary: The Government of Peru (GOP) unilaterally lowered its tariffs again, to a 5.8 percent average tariff, from the previous 8.0 percent and over 60 percent in the mid-1990s. The GOP will likely continue this trend, reinforced by the prospect of ratification of the U.S.-Peru Trade Promotion Agreement (PTPA), and prospective FTA talks with Canada, the EU, China, and Singapore. This tariff measure on capital goods, agricultural, construction, industrial, transportation, and consumer products is, like the previous measures, proof of the GOP's commitment to its "apertura commercial". The government's main motivation is to improve resource allocation and competitiveness in consumer spending. But it also hopes the increased imports would reduce the appreciation pressure on the Nuevo Sol against the depreciating U.S. dollar. Imports reached US$1.8 billion, continuing a 44 month positive flow. Polls show strong support among consumers and business for these reductions, though some local industries have expressed concern over specific products, notably cement. End Summary.

ZERO DUTIES ON ALMOST HALF OF TARIFF LINES

¶2. The Ministry of Economy and Finance (MEF) announced on October 13, 2007, reductions in tariffs for 4,148 Customs codes out of a 7,351 total codes in its Tariff Schedule, or 56 percent of its Tariff Schedule. As a result, Peru now imposes no duties on 48.5 percent (3,568 codes) of the items in its tariff schedule, covering some intermediate agricultural goods, parts, and capital goods not produced locally, liquefied petroleum gas, non-locally-produced capital goods, intermediate goods, parts, wheat and wheat flour. It is important to note that these items represent 62.51 percent of Peru's imports in 2006.

¶3. The current four-tier duty structure includes a 9 percent duty, applied on 37.0 percent (2,718) of the Customs codes, mainly consumer goods; some locally produced capital goods; intermediate goods; some pork meats; some corn, barley, and malt products; preparations for child food products; beer; and liquor. In addition, a 17 percent duty is applicable on 14.3 percent of import items (1,052 codes), covering mostly textiles; footwear; household electrical products; coffee; and some other agricultural products; and a 20 percent duty on 0.2 percent of the items (13 codes)

covering bovine meats and their derivatives.

LOWERING PRICES FOR CONSUMERS

¶4. The mean tariff is now 5.8 percent, down from 8.0 percent, while the weighted average (using 2006 imports) is 2.3 percent compared with 3.8 percent. The Minister of Economy and Finance Luis Carranza noted that the reduction in tariffs of food products, inputs and capital goods will directly impact the consumer price of these products, resulting in increased competitiveness for Peru's economy, productivity increase and general wellbeing, while hoping that the increased imports would alleviate the strength of the Nuevo Sol against the U.S. dollar. The 25 percent duty on 62 codes has been eliminated.

POLLS SHOW STRONG SUPPORT FOR TARIFF REDUCTION
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¶5. The most recent poll conducted by El Comercio, national newspaper, indicates that the Peruvian population favors a reduction in tariffs and taxes on imports. Specifically, the results of the poll show approximately 69 percent of those polled support a reduction for wheat, rice, and sugar; 61 percent support a reduction for clothes; and, 63 percent support a reduction in domestic electronics. The National Confederation of Private Business Associations (CONFIEP) supports the reduction in tariffs; however, the association questions the manner in which the GOP has announced the tariff reductions. CONFIEP criticizes the GOP for taking action, figuratively, "in the middle of the night." CONFIEP has also voiced concern regarding the reduction of cement to 0 percent. Another major business chamber, the Foreign Trade Society of Peru (COMEXPERU) strongly supported the GOP's action. Most local economists polled by the local news also voiced support for the reductions.

CRITICS: LOW COST CEMENT FROM COLOMBIA?

¶6. Two major business chambers, the National Society of Manufacturing Industries (SNI) and the Exporters Association (ADEX), strongly opposed the tariffs reduction, and called upon the GOP to reconsider the measure. The SNI president went as far as to state that, if the measure is not revoked, the manufacturing industries labor force would decrease by 6 percent and it's GDP by 15 percent in 2008. Observers say the SNI's main objection is also the prospect of imported low price cement from Mexico through Colombia. With Peru's construction boom in full swing, economists note that the foreign competition could kill local cement manufacturers' chances of windfall profits. Other more minor problems are specific textile lines.

IMPORTS INCREASE AT RECORD RATES

¶7. Foreign purchases continue to increase in Peru, up overall to 41.3 percent in September. Imports of capital goods and construction materials lead at 59.0 percent, followed by raw materials and intermediate products at 36.1 percent and finally consumer products at 29.2 percent. In September, imports of industrial capital goods such as telephones, industrial machinery, and parts/accessories, increased by 56.8 percent and for agricultural capital goods, such as tractors, brooders, shovels by 57.9 percent. Raw materials and intermediate products included mostly minerals, wheat, yellow maize, and non-food farm products and chemical products for the textile sector, paper and cardboard. Under consumer products the 29.2 percent increased can be divided in between durable (31%) and non-durable goods (27.9%). Durable goods included mostly new vehicles and televisions from Mexico and China. In the transportation sector, imports have increased by 77 percent for commercial vehicles.

U.S. DOLLAR CONTINUES TO DECLINE AGAINST SOL

¶8. The U.S dollar continues to weaken against the Peruvian Nuevo Sol. Over the past year the exchange rate between the U.S. dollar and the Nuevo Sol has decreased from 3.25 in October 2006 to nearly 3.017 in October 2007. Just during the month of September the U.S. dollar has depreciated from 3.172 Nuevo Soles to almost 3.017 as of October 4. This rate of exchange reaches levels similar to those of August 1998. The Central Reserve Bank continues to intervene

heavily in the local exchange market to support the dollar. The bank has purchased nearly $6.46 billion so far this year.

COMMENT: PERU OPENS TO GLOBAL ECONOMY

¶9. The Garcia Administration entered office in June 2006 with the unstated goal to continue President Toledo's policy to make Peru a more competitive nation in the international economy. The GOP's economic team's pursuit of this goal is reflected in their policies to further reduce tariff rates and pursue trade agreements with numerous foreign governments including Canada, China, European Union, Mexico, Singapore, Thailand, and the United States. The current policies show how far Peru has come in the last two decades; a country that for twenty years had an economy reaching only 20 percent of the international market. Today, the rate is about 50 percent, but the goal, as delivered in a public message by Economy Minister Luis Carranza, is to reach 70-80 percent of the international market by the end of Garcia's term.

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